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UNCLAS SECTION 01 OF 02 SANTO DOMINGO 000612

SIPDIS

SENSITIVE

DEPT PASS USDOT
STATE FOR EB/TRA/AV, EB/CBA, WHA/CAR; NSC FOR SHANNON
USDOC FOR 4322/ITA/MAC/WH/CARIBBEAN BASIN DIVISION
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E.O. 12958: N/A

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SUBJECT: AMERICAN AIRLINES DISPUTE WITH DOMINICAN AIRPORTS
AUTHORITY OVER GROUND-HANDLING

REF: A. 03 SANTO DOMINGO 681

1B. 05 STATE 2526

11. (SBU) SUMMARY: The Ambassador and Embassy officers have raised with Dominican authorities the American Airlines (AA) notification that it will end ground-handling services for all other carriers at Santo Domingo Las Americas Airport (AILA) and will assume self-handling of its flights on April 1. Dominican airports authority Aerodom asserts that AA has no legal right to self-handle. Dominican Director General of Civil Aviation Norge Botello agrees with Aerodom and asserts that the US-Dominican Bilateral Agreement of 1949 is the only agreement in force. Aerodom and AA have exchanged views. If this business dispute is not resolved before April 1, Aerodom could attempt to lock out AA employees in its efforts to deny AA's attempt to self-handle. END SUMMARY.

12. (SBU) The Ambassador and Embassy officers have raised with Dominican authorities the American Airlines (AA) notification to Aeropuertos Dominicanos Siglo XXI, S.A. (Aerodom) that it will close its wholly-owned subsidiary on April 1, ending ground-handling services for all other carriers at Santo Domingo Las Americas Airport (AILA). AA will assume self-handling of all AA and American Eagle flights on that date. Aerodom has contracted the services of British-owned Menzies Aviation Group to provide ground handling services of all flights, both cargo and passenger, on April 1. Menzies is a international provider of ground-handling services and currently has operations at the international airport in Puerto Plata and handles UPS and FEDEX cargo planes at AILA.

13. (U) Aerodom asserts that AA has no legal right to self-handle claiming that the 1986 and 1999 US-Dominican Air Transport Agreements have never been ratified by the Dominican Congress and are not in force. The Dominican Director General of Civil Aeronautics, Norge Botello, agrees with Aerodom and asserts that the US-Dominican Bilateral Agreement of 1949 is the only agreement in force. Embassy provided guidance to President Fernandez and the Dominican civil aviation authorities (ref. B) that AA should be able to self-handle according to the 1986 Air Transport Agreement (REF B).

14. (U) Although a meeting arranged by the Ambassador to bring together AA and Aerodom failed to resolve the companies' dispute over ground-handling services at AILA, Aerodom and AA have exchanged views. At this time Aerodom continues with its plans to turn AILA ground-handling operations over to Menzies, and AA is planning to self-handle on April 1. If this business dispute is not resolved before then, Aerodom may attempt to lock out AA employees in its efforts to deny AA's attempt to self-handle.

AERODOM,S POSITION

15. (U) In 1999 the Dominican Government awarded Aerodom an exclusive 25-year concession, including exclusivity of ramp handling services, over AILA and three other international airports. Aerodom argues that they retain control of all ground-handling services through their exclusive agreement with the Dominican Government. After repeated attempts to reach an agreement with AA over ground-handling services, Aerodom notified AA it was terminating the agreement and AA had 120 days to transfer ground-handling activities to Aerodom.

16. (U) Aerodom asserts that the US-Dominican Bilateral Agreement of 1949 is the only valid agreement because it is the only agreement ratified by the Dominican Congress. According to Aerodom, the 1986 Air Transport Agreement and 1999 Open-Skies Agreement have not been ratified by the Dominican Congress and language authorizing provisional ratification is unconstitutional. In a January 27 meeting with the Ambassador, Jose Luis Abraham, Vice President of the Board of Aerodom, said that even if the 1999 Open-Skies Agreement were ratified, Aerodom would not allow AA to

self-handle because of the security exception in the 1988 and 1999 agreements.

17. (SBU) Aerodom is currently negotiating with the World Bank, s International Finance Corporation (IFC) for a \$100 million soft loan and with Export Development Canada (EDC) for \$40 million to cover the cost of contractually required improvements to AILA. Aerodom's managers have expressed concern that the business conflict between AA and Aerodom may disrupt or delay negotiations over these loans. Both the Canadian and British Ambassadors to the Dominican Republic have raised this issue with the Ambassador. Vancouver Air Services provides airport management services to Aerodom on a long-term contract and has one seat on the Aerodom board.

AMERICAN AIRLINES POSITION

18. (SBU) AA wished to terminate its DSA ground-handling services contract at AILA in order to focus on its core business of passenger service and to reduce costs associated with ground handling. AA officials believe the firm made a mistake by entering into a costly agreement with Aerodom, where AA was required to pay over 40 percent of gross, and by providing service to its competitors at AILA. AA wants to self-handle in order to reduce costs and maintains it cannot turn its ground-handling services over to Menzies because it is required to fulfill its obligations with the USG under the Supercarrier Initiative. AA says that it cancelled an initialed term sheet with Aerodom earlier this year because Aerodom attorneys changed the agreement and inserted language that required AA to abandon its claim to self-handling after 2008. AA has formally offered to pay Aerodom a 30 percent royalty/franchise/no objection fee starting April 1. AA has indicated a willingness to be flexible on the dates for transition.

HERTELL